

# Virginia Retirement System Update

House Appropriations  
Subcommittee on Compensation and  
Retirement

January 19, 2012

Robert P. Schultze, VRS Director



Virginia  
Retirement  
System

# Agenda

- System Overview
- Funding the Benefit
- Legislative Proposals
- LODA Overview

# System Overview



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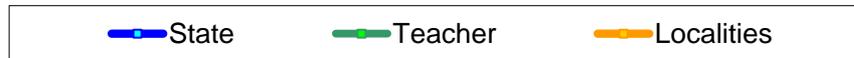
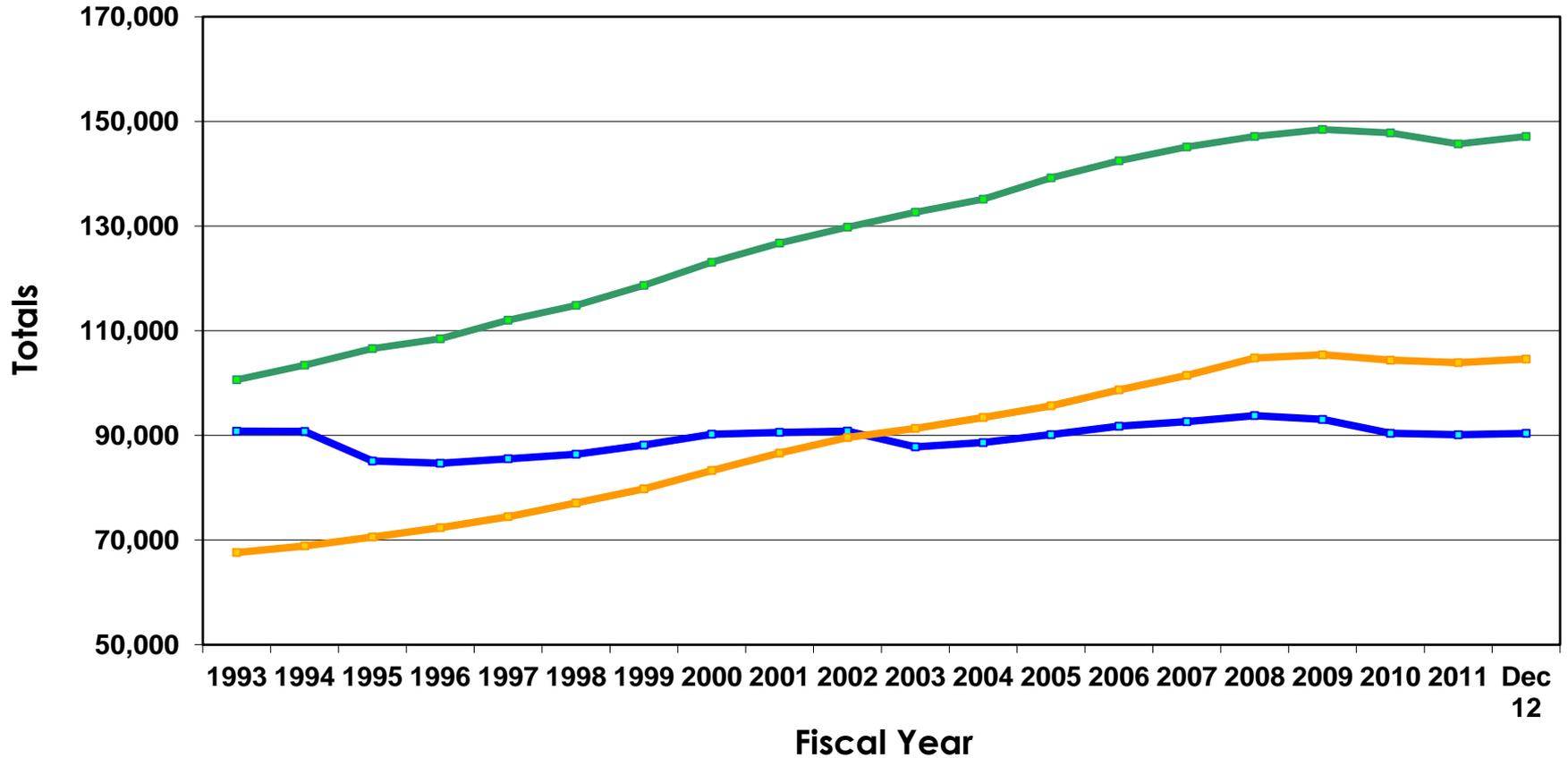
# VRS Total Membership

Teachers	147,129
Political Subdivisions	104,600
State Employees	78,622
State Police Officers' Retirement System (SPORS)	1,812
Virginia Law Officers' Retirement System (VaLORS)	9,552
Judicial Retirement System (JRS)	403
<b>Total Active Members</b>	<b>342,118</b>
Retirees/Beneficiaries	161,006
Inactive/Deferred Members	109,291
<b>VRS Overall Impact</b>	<b>612,415</b>

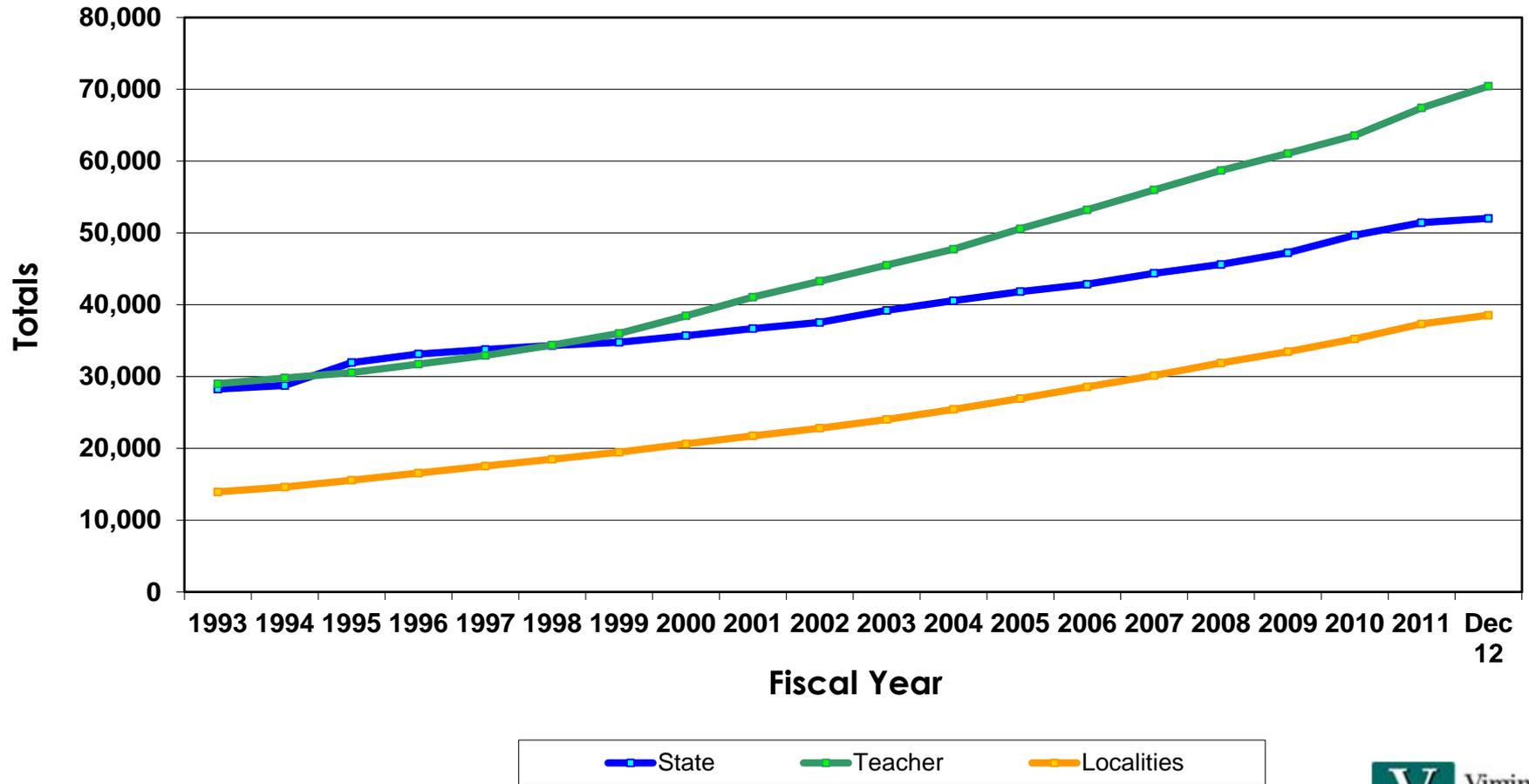
As of December 31, 2011



# Active Members



# Retirees



# Benefit Comparison

	State	Teachers	Local
<b>Actives:</b>			
Average Age	48.0	45.2	46.1
Average Service	12.9	11.8	10.9
Average Salary	\$48,619	\$47,363	\$39,282
<b>Retirees:</b>			
Avg. Age @ Retirement	62.2	61.1	61.7
Avg. Service @ Retirement	23.3	24.4	20.5
Avg. Benefit @ Retirement	39.6%	41.5%	35.0%
Avg. Annual Benefit	\$21,118	\$24,359	\$15,446

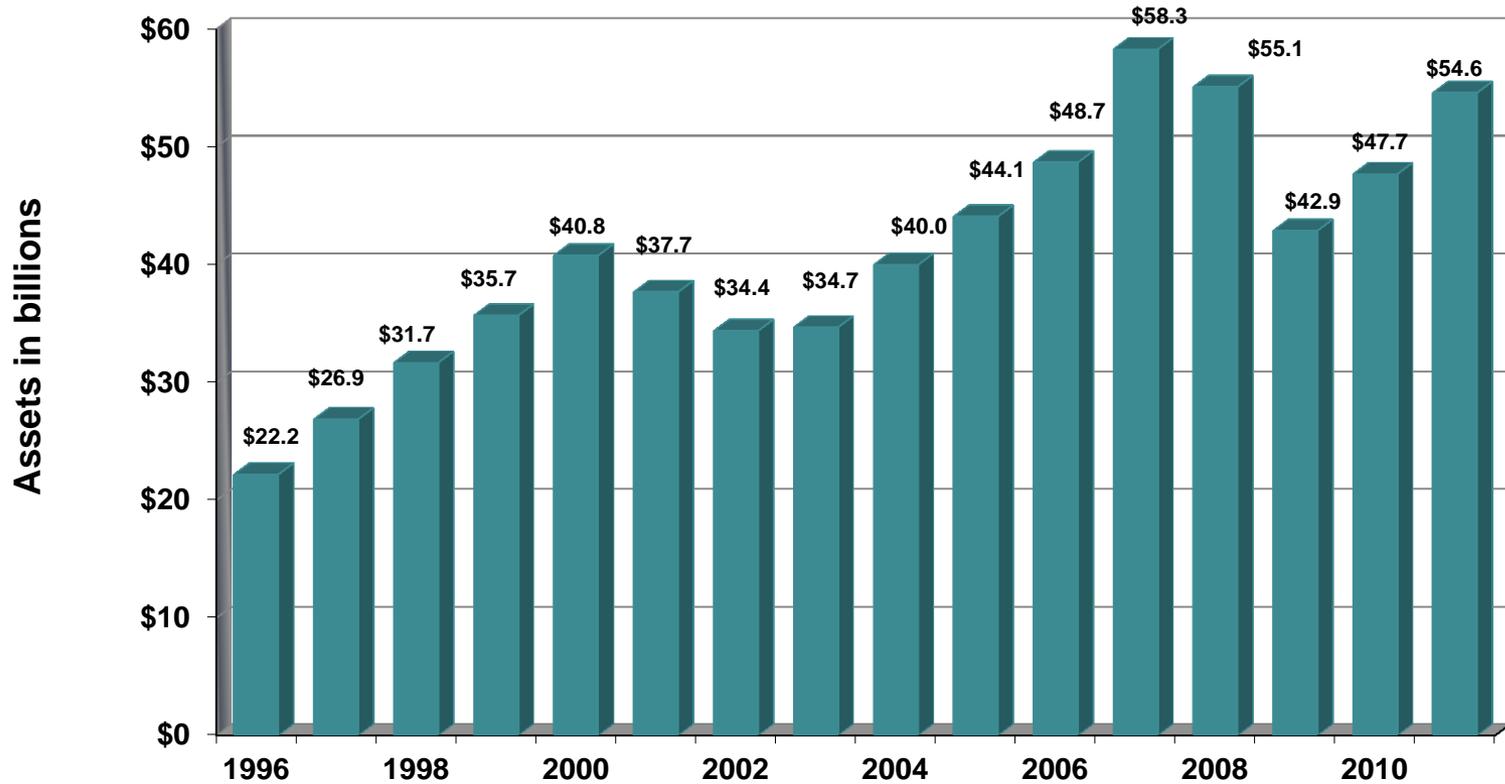
Information obtained from the June 30, 2011 Actuarial Valuation.

# Funding the Benefit

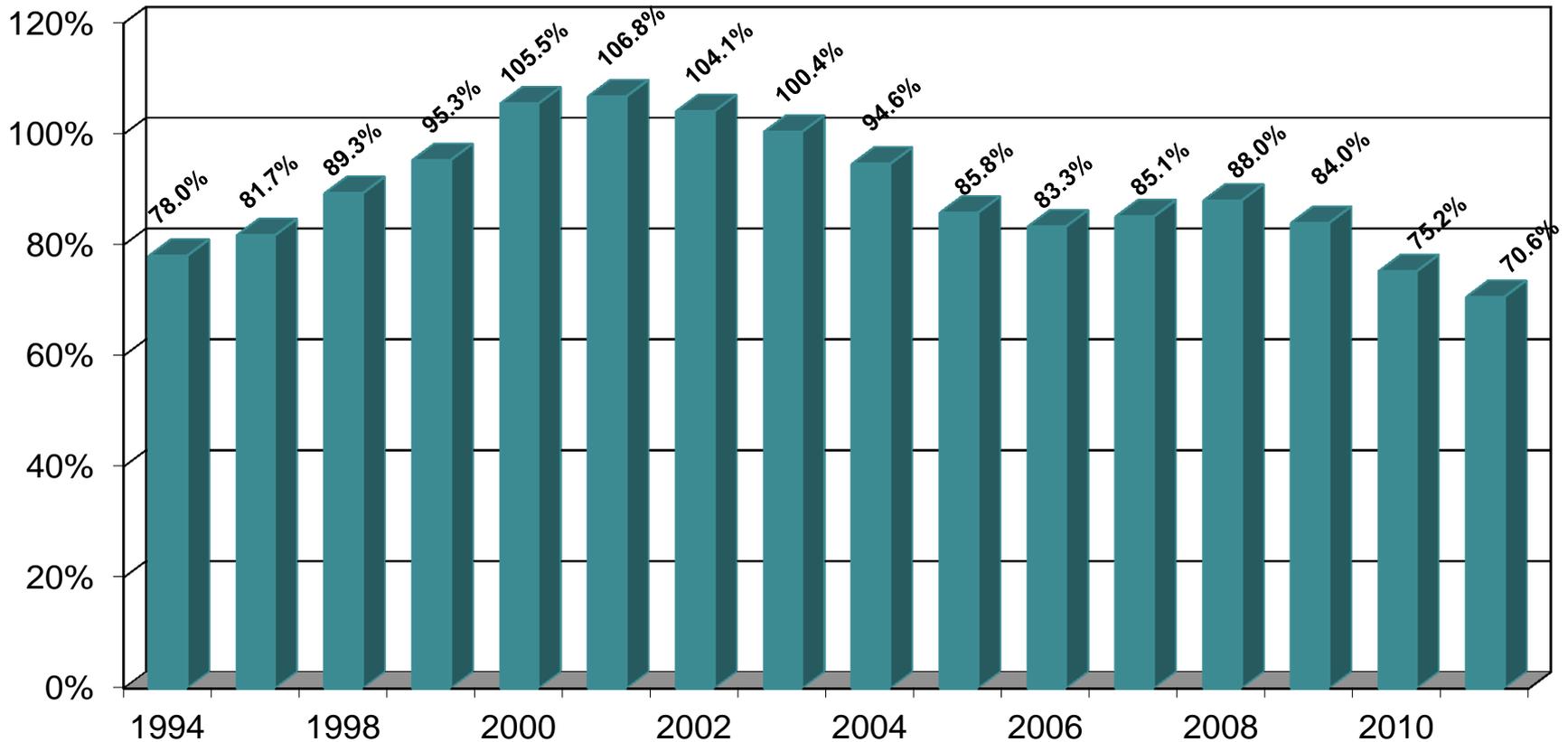


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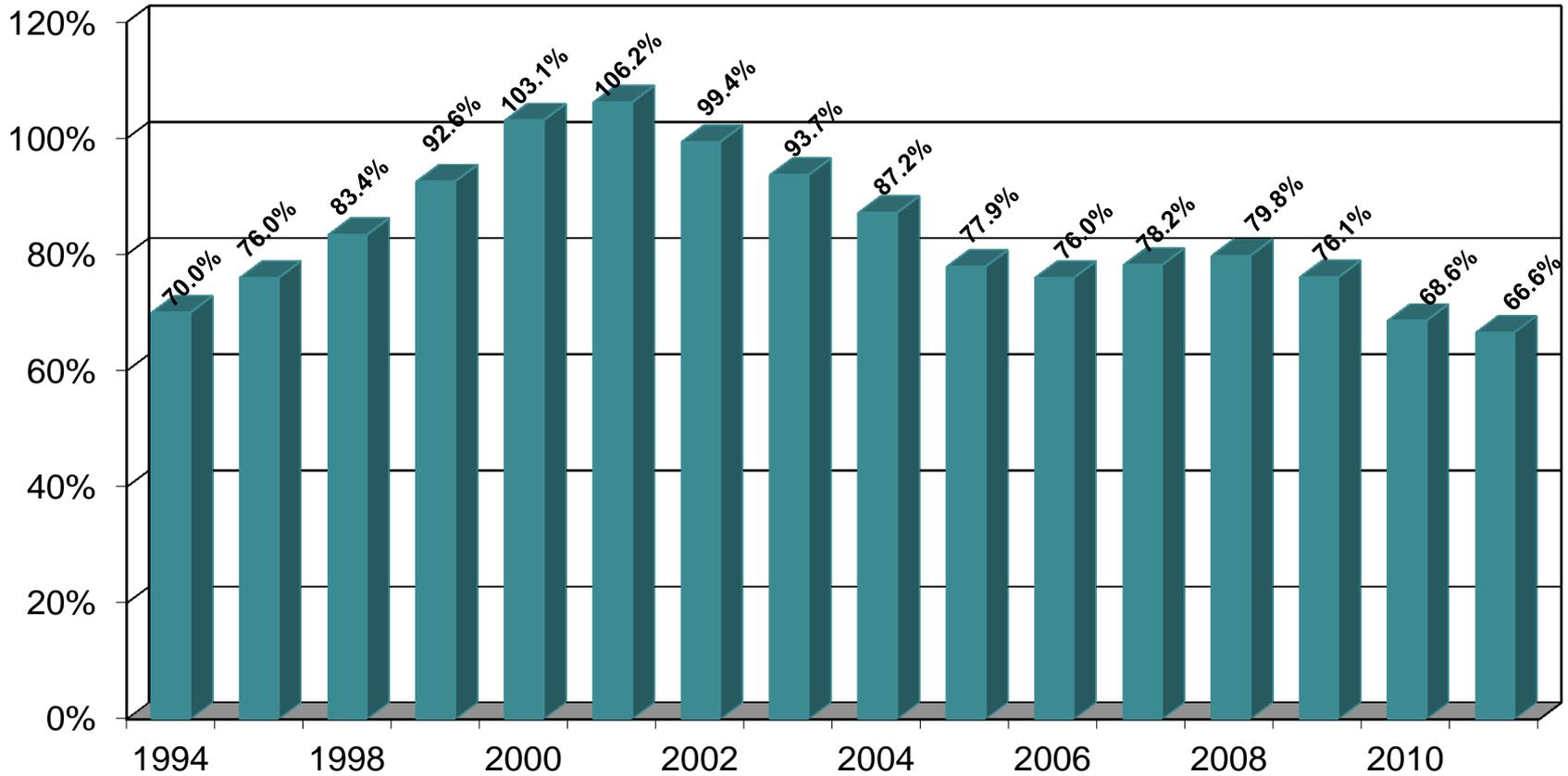
# Net Assets Available for VRS Benefits



# Funded Status: State Employee Retirement Plan



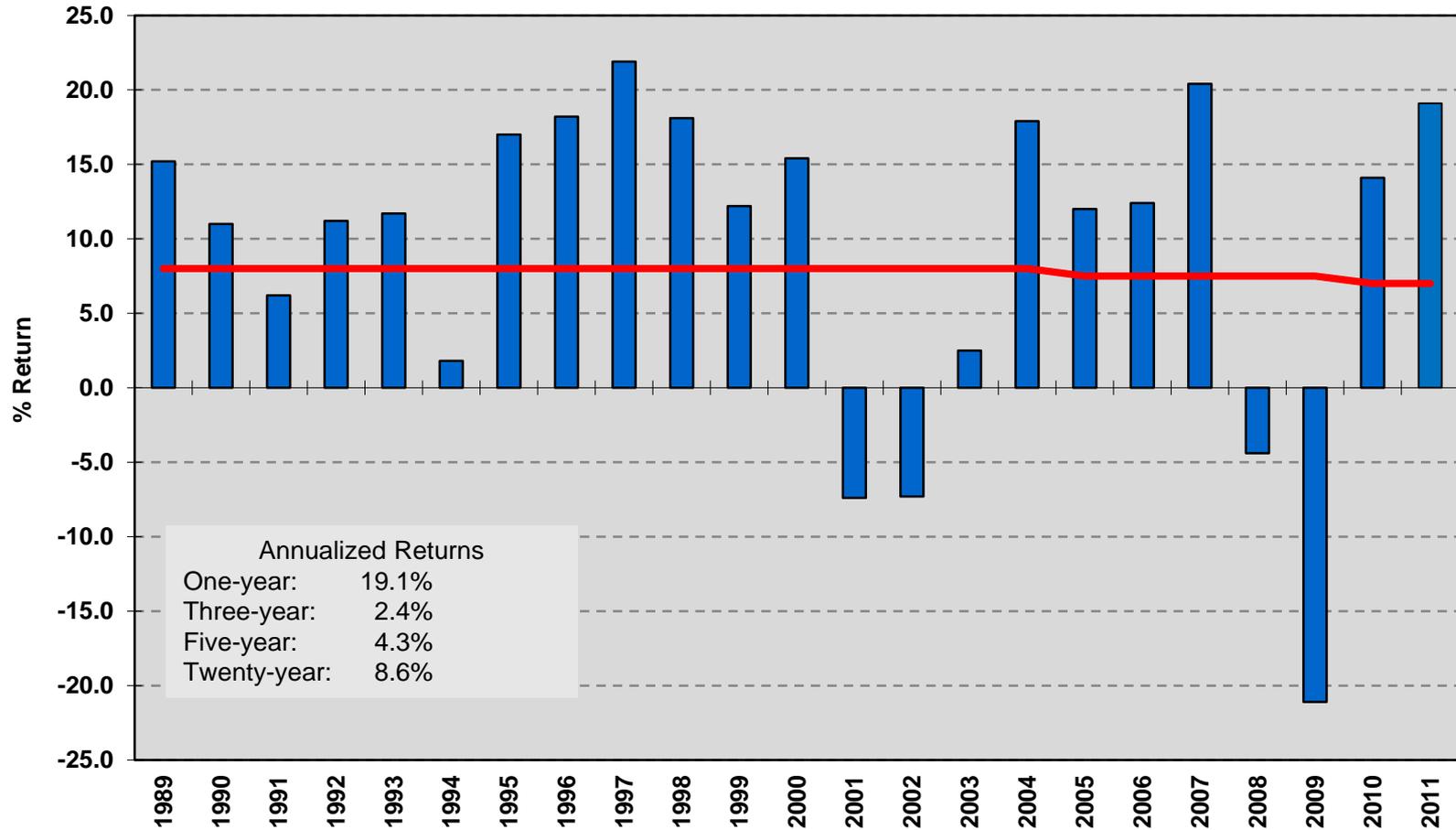
# Funded Status: Teacher Retirement Plan



# Reasons for Decline in Funded Status

- Decline in funded status:
  1. Two recessions since 2000, producing investment gains below actuarial assumptions
  2. More conservative estimates of long-term future investment gains:
    - Pre-2005: 8.0%
    - 2005 – 2009: 7.5%
    - 2010 – Present: 7.0%
  3. Long-term trend (since mid-90s) of funding contribution rates below board certified rates

# VRS Fiscal Year Returns



# VA Retirement System Liabilities

## Unfunded Liabilities by Plan

Plan	6/30/2011 (in billions)	Percent Paid by General Fund	Liabilities Paid by General Fund (in billions)
State Employees (includes SPORS, JRS, VaLORS)	\$7.33	53.60% (average)	\$3.93
Teachers	\$12.60	37.62%	\$4.74*
<b>Total</b>	<b>\$19.93</b>	<b>43.49% (average)</b>	<b>\$8.67</b>

\* Note: The General Fund is not obligated to support future liabilities of the teacher retirement plan. However, this amount is an estimate of liabilities that would be assumed by the General Fund if the state's future rate of local aid for teacher retirement costs remains at the levels appropriated by the state 2012-2014 biennium.

# 2012 Legislative Initiatives



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# Pension Reform Efforts in VA

Year	Reform Effort
2008	General Assembly requests Joint Legislative Audit and Review Commission (JLARC) Compensation Study.
2010	General Assembly creates Plan 2 for members hired on or after July 1, 2010: <ul style="list-style-type: none"><li data-bbox="446 676 1238 715">▪ Age and service requirements increased</li><li data-bbox="446 719 1837 758">▪ Members required to pay 5 percent member contribution (Local Option)</li><li data-bbox="446 762 884 801">▪ COLA formula revised</li><li data-bbox="446 805 896 843">▪ Five-year AFC formula</li></ul>
2011	General Assembly enacted 5/5 program for Plan 1 state employees. Senate requests JLARC to submit an updated Compensation Study.
2012	JLARC submits updated Compensation Study with the following recommendations: <ul style="list-style-type: none"><li data-bbox="446 1115 1083 1153">▪ Increase employer contributions</li><li data-bbox="446 1158 861 1196">▪ Plan design changes</li><li data-bbox="446 1200 1031 1239">▪ Other pension reform efforts:<ul style="list-style-type: none"><li data-bbox="542 1243 722 1282">▪ DC Plan</li><li data-bbox="542 1286 788 1325">▪ Hybrid Plan</li></ul></li></ul>

# Governor's Budget Initiatives

- Governor's proposals in the budget:
  - Recommend \$2.21 billion in total employer contributions to the state and teacher plans, funded by state and local governments
  - Provide the largest employer contribution to VRS
  - Reflect the contribution "payback"

# Retirement Contribution Rates

	<b>Board Certified 2011 &amp; 2012</b>	<b>Fiscal Year 2012*</b>	<b>Governor Proposed Rates 2013 &amp; 2014</b>	<b>Board Certified 2013 &amp; 2014</b>
State	8.46%	3.21%	8.76%	13.07%
Teachers	12.91%	6.33%	11.66%	16.77%
SPORS	25.56%	11.09%	24.74%	32.62%
VaLORS	15.93%	7.08%	14.80%	19.52%
Judges	46.79%	32.13%	45.44%	54.11%

Contribution rates do not include the 5% member contribution rate. \* Fiscal year 2012 retirement system contribution rates for state plans shown in the table above are blended rates. The blended rate was derived from the state paying one rate for the first three quarters of the fiscal year and a higher rate for the last quarter. Fiscal year 2012 retirement contribution rates for state plans for the two periods are as follows: 2.08% and 6.58% for State; 7.73% and 21.16% for SPORS; 5.07% and 13.09% for VaLORS; and 28.65% and 42.58% for JRS.

# Governor's Proposals

- Governor's VRS Reform Package:
  - Average between \$160 million to \$170 million annually in cost savings and additional contributions
  - Over next 21 years, VRS would gain \$3.4 to \$3.6 billion in contributions or cost savings to reduce unfunded liabilities.

# Governor's Proposals (HB 1129)

Proposal	Membership	Further Information
6% Employee Contribution	General state employees State Police VaLORS	New employees – Effective 7/1/2012  Current employees – Phased in at an additional .5% on 7/1/2012 and 7/1/2013
COLA Capped at 3%	General state employees State Police VaLORS Judges Local government employees Teachers	Effective 1/1/2013 (new and current employees)  Members within 5 years of eligibility for unreduced benefit as of the effective date of the bill are grandfathered
COLA	General state employees State Police VaLORS Judges Local government employees Teachers	Effective 1/1/2013 (new and current employees)  Members retiring with a reduced benefit are not eligible for a COLA until one calendar year after they would have received unreduced retirement  Members within 5 years of eligibility for unreduced benefit as of the effective date of the bill are grandfathered

# Governor's Proposals (HB 1129)

Proposal	Membership	Further Information
60-month AFC	General state employees State Police VaLORS Judges Local government employees Teachers	Effective 1/1/2013 (Plan 1 employees)  Plan 2 employees already have this AFC  Current members: 36-month AFC frozen for all service prior to 1/1/2013; at retirement current member receives the higher of the two calculations
1.6% Multiplier	New general state employees New local government employees (not law enforcement) New teachers	Not applicable to current members

# Governor's Proposals (HB 1130)

Proposal	Membership	Further Information
Optional Hybrid Plan	General state employees State Police VaLORS	<p>Effective 1/1/2014</p> <p>State members hired on or after 1/1/2014 elect between the Optional Hybrid and DB plans; current state employees may opt in during special window</p> <p>Features:</p> <ul style="list-style-type: none"> <li>▪ Multiplier of 1.0%</li> <li>▪ 6% mandatory employee contribution (4% to DB and 2% to DC)</li> <li>▪ DC employer match is 1% with an additional 2.5% match possible up to a total of 3.5% employer contribution</li> <li>▪ Existing 401(a) and 457(b) accounts would be used; IRS limits apply</li> <li>▪ Members covered under VSDP</li> <li>▪ Irrevocable election; current DB plan default</li> </ul>

# VRS Board Requested Legislation

Bill Number	Patron	Summary
HB 350	Cox, K.	<ul style="list-style-type: none"> <li>▪ Removes military disability benefits as an offset to the disability benefit under the Virginia Sickness and Disability Program (VSDP).</li> <li>▪ Conforms VSDP treatment of military disability benefits with the Social Security Administration and Workers' Compensation.</li> <li>▪ Codifies budget language that limits employees hired on or after July 1, 2009 to income replacement of 60% for the first 60 months of service.</li> </ul>
HB 791	Tata	<p>Technical corrections bill:</p> <ul style="list-style-type: none"> <li>▪ Allows members to purchase VRS service not reported while receiving Workers' Compensation.</li> <li>▪ Clarifies the amount of a refund payable from accumulated contributions received by members.</li> <li>▪ Allows Optional Retirement Plan (ORP) participants who have a deferred member account balance in the VRS DB plan to transfer the DB member account balance to their ORP account and have the creditable service accrued in the DB plan to count toward the eligibility for the health insurance credit.</li> <li>▪ Amends sections of the <i>Code</i> to conform to the federal Heroes Earnings Assistance and Relief Tax (HEART) Act.</li> </ul>
HB 792	Tata	Allows participating localities to elect automatic enrollment in the 457 deferred compensation plan for newly hired or rehired employees.

# Line of Duty Act Fund



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# LODA Overview

- Defined by §9.1-400 of the Virginia Code
- Provides benefits to first responders who die or become disabled in the line of duty
- Benefits:
  - Death benefit
    - \$100,000 for death occurring as a direct or proximate result of duties
    - \$25,000 for death by presumptive clause or within five years of retirement
  - Continued health insurance coverage
    - Disabled employee
    - (Surviving)spouse
    - Dependent children

# FY 2011 LODA Costs

Cost	Non-Participating	Participating			LODA Total
		State	Political Subdivisions	Total	
Health Care Payments	\$863,273	\$2,014,513	\$6,043,541	\$8,058,054	\$8,921,327
Death Benefit Payments	\$500,000	\$0	\$375,000	\$375,000	\$875,000
DOA Expenses	\$41,420	\$58,479	\$109,114	\$167,593	\$209,013
VRS Expenses	\$0	\$111,465	\$207,978	\$319,443	\$319,443
Loan Interest	<u>\$0</u>	<u>\$123,290</u>	<u>\$230,041</u>	<u>\$353,331</u>	<u>\$353,331</u>
<b>Total</b>	<b>\$1,404,693</b>	<b>\$2,307,747</b>	<b>\$6,965,674</b>	<b>\$9,273,421</b>	<b>\$10,678,114</b>

# Number of Health Care Beneficiaries as of June 30, 2011

Participating Employer Groups			
Type	State	Political Subdivisions	Aggregated Total
Disabled Participants	199	439	638
Spouses	155	342	497
<u>Surviving Spouses</u>	<u>14</u>	<u>73</u>	<u>87</u>
<i>Total</i>	368	854	1,222

# Number of Active Lives as of June 30, 2011

Participating Employer Groups				
Group	Number	Weight	FTEs	FY 2012 Contributions*
State/VaLORS/SPORS	11,078	100%	11,078.00	\$2,591,033
National Guard				
Full-Time	653	100%	1,322.40	\$309,296
Part-Time	6,694	10%		
<i>State Employees</i>	18,425		12,400.40	\$2,900,329
Participating Political Subdivisions	20,782	100%	20,782.00	\$4,860,702
	9,421	25%	2,355.25	\$550,869
<i>Political Subdivision Employees</i>	30,203		23,137.25	\$5,411,571
<b>Aggregated Total</b>	<b>48,628</b>		<b>35,537.65</b>	<b>\$8,311,900</b>

\* FY 2012 contribution rate of \$233.89 per FTE based upon June 30, 2010 estimates.

# Contributions

## Estimated per FTE Rates – Pay-As-You-Go Funding

Assumes Participating Political Subdivisions Without Claims Incurred Prior To July 1, 2011 Opt-Out After June 30, 2012							
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Full-Time Employees (FTEs)	35,537.65	32,238.15	32,238.15	32,238.15	32,238.15	32,238.15	32,238.15
Expected Benefit Payments	\$284.84	\$354.10	\$400.66	\$451.44	\$499.70	\$548.17	\$595.12
Loan Repayment	(66.02)	102.80	102.80	102.80	102.79	0.00	0.00
Administrative Expenses	12.49	14.10	15.07	16.08	17.13	18.23	19.36
Margin	<u>2.58</u>	<u>3.14</u>	<u>3.44</u>	<u>3.74</u>	<u>4.01</u>	<u>4.27</u>	<u>4.53</u>
Total Pay-As-You-Go Cost	\$233.89	\$474.14	\$521.97	\$574.06	\$623.63	\$570.67	\$619.01
FY 2011 HIC Transfer*	<u>\$7.48</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
Paid Contribution	<u>\$241.37</u>	<u>\$474.14</u>	<u>\$521.97</u>	<u>\$574.06</u>	<u>\$623.63</u>	<u>\$570.67</u>	<u>\$619.01</u>

\* Future HIC receipts have been offset from health care costs while developing rates.

# LODA Budget Items

- **HB 29 - Item 258 (G):**

*The Secretaries of Finance and Public Safety and the Governor's Chief of Staff shall convene a work group to review the current process for determining eligibility of state and local Line of Duty Act recipients and the funding responsibility between the Commonwealth and its localities. The purpose of this study is to examine cost efficiencies and determine a fair and equitable division of financial responsibility for Line of Duty Act program costs. The work group shall consist of representatives as determined by the Secretaries of Finance and Public Safety and the Governor's Chief of Staff. The group shall complete its review and make recommendations to the Governor no later than July 1, 2012.*

- **HB 30 – Executive Budget Amendment**

Provides that a portion of the un-appropriated balance would pay LODA costs if meaningful long-term changes can be made to insure the program's viability.

**Thank you!**



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